



SCOTTSDALE CITY COUNCIL AUDIT COMMITTEE

Public Meeting

Friday December 10, 2004 – 2:30 pm

Kiva Conference Room, First Floor, City Hall

3939 N. Drinkwater Blvd, Scottsdale, AZ 85251

AGENDA

CALL TO ORDER / ROLL CALL

MINUTES - Approval of December 7, 2004 Committee Meeting Minutes

GENERAL BUSINESS

- 1. Audit Committee Administrative Issues – Provide direction to staff regarding future agenda preparation and the process to be used to request extensions of time for management responses.**
- 2. Audit Reports**
 - a. Discuss Police Property Room Audit
 - b. Discuss format of audit reports and solicit feedback on report presentation
 - c. Consider the request for an extension of time for responses – Safety Programs Audit
- 3. Current Work Plan – Provide Direction on the Initiation of Audit Work**
- 4. Discussion on the Development of Audit Plan for 2005**
- 5. Discuss Staffing of Office in Light of Open Position**
- 6. Budget – Current budget and development of budget for FY2005/2006**

PUBLIC COMMENTS

COMMITTEE COMMENTS

ADJOURNMENT



Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting the City Clerk's office at (480) 312-2412. Requests should be made as early as possible to allow time to arrange accommodation.

DRAFT

Audit Committee Meeting Minutes December 7, 2004

Kiva Conference Room, City Hall
3939 North Drinkwater Boulevard
Scottsdale, AZ 85251

Members Present: Councilman Ecton
Councilman Lane
Councilman Littlefield

City Staff Present: Cheryl Barcala, City Auditor
Gail Crawford, Internal Auditor
Brent Stockwell, Assistant to the Mayor and Council

The meeting was called to order at 3:15 p.m.

Minutes of the March 2, 2004, Audit Committee Meeting were approved.

General Business:

Item 1 – Councilman Lane was appointed Audit Committee Chair.

Item 2a – Ms. Barcala provided a brief history of the Audit Committee and a copy of the Ordinance relating to the City Auditor Office was provided.

Item 2b – According to Ordinance, the role of the Audit Committee is to serve as the reviewer of the Audit Plan and forward it to Council for recommendation and approval. The Audit Committee has the purview of modifying the Audit Plan during the year. The Audit Committee also provides assistance if issues between the City Auditor and City Manager or other auditees need to be resolved. Discussion of whether the Audit Committee could review draft reports and if they would remain nonpublic documents if brought to the Audit Committee for review. Discussion on the formation of an Audit Plan (i.e., input and review). Ms. Barcala was directed to explore, with the City Attorney, the issue of presenting a draft report to the Audit Committee. It was decided to release final reports to the full Council and Audit Committee. The Audit Committee will call a special meeting when a report is to be issued for review and clarification.

Item 2c – Audit Committee meetings will be scheduled quarterly every fourth Wednesday of each month at 3 p.m. except in December because of the holidays (March 23, June 22, September 28, December 14).

Item 3a – Discussion of the Police Property Room Audit and follow up of recommendations. Ms. Barcala was directed to provide a discussion of priorities of the recommendations within the next seven days.

DRAFT

Item 3b – Councilman Ecton provided a list of suggestions regarding audit report format/presentation and requested the Audit Committee discuss it at the next meeting.

Item 4ai – Audit of Safety Programs – Management has requested an extension of the 30-day response timeframe, which would be January 6, 2005. The Audit Committee directed Ms. Barcala to extend Risk Management's time and to let the Audit Committee know Risk's preference at the next Audit Committee Meeting. Ms. Barcala was directed to include approval of extensions on the next agenda.

Item 4aii – Immigration Reform and Control Compliance Act Audit - Management responses are due on December 22, 2004.

Items 4b – 7 will be reagendized along with Item 2b, 3b, and extension approvals at an Audit Committee Meeting on Friday, December 10, 2004.

Public Comments – None.

Committee Comments – None.

Meeting adjourned at 5:08 p.m.

Respectfully submitted,

Gail Crawford

DIVISION 6. CITY AUDITOR**Sec. 2-117. Establishment; qualifications.**

- (a) The office of city auditor of the city is hereby established. The city auditor shall be designated through appointment by a majority vote of the city council.
- (b) The city auditor shall be a person able to manage a professional audit staff, analyze financial records, evaluate operations for economy, efficiency and program results.
- (c) The city auditor shall not be actively involved in partisan political activities or the political affairs of the city.
- (d) The city auditor should be a certified internal auditor (CIA), certified public accountant (CPA), or a certified management accountant (CMA). If he or she is not so certified, then at least one (1) deputy should be so certified.
- (e) The city auditor shall serve at the pleasure of the city council, but can only be removed by a majority vote of the city council.
- (f) The city auditor and the city auditor's office shall adhere to generally accepted government auditing standards (GAGAS) in conducting its work and will be considered independent as defined by those standards.
- (g) The city auditor shall have such assistants and employees as are necessary to perform duties required by the city council.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-118. Audit committee.

An audit committee is hereby established to consult with the city auditor regarding technical issues, to work to assure maximum coordination between the work of the city auditor and the needs of the city manager, the other charter officers and to perform other duties as required or directed by the city council. The audit committee shall consist of three (3) members of the city council, who shall be appointed by the mayor, with the approval of the city council, as provided in section 2-23 of this Code.

(Ord. No. 2236, § 1, 5-1-89; Ord. No. 2304, § 1, 7-2-90; Ord. No. 2480, § 1, 9-14-92)

Sec. 2-119. Scope of audits.

(a) The city auditor shall have responsibility to conduct expanded scope audits of all departments, offices, boards, activities and agencies of the city to independently determine whether:

- (1) Activities and programs being implemented have been authorized by the city council, state law or applicable federal law or regulations;
- (2) Activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by the city council, state law or applicable federal law or regulations;
- (3) Activities or programs efficiently and effectively serve the purpose intended by the city council, state law or applicable federal law or regulations;
- (4) Activities and programs are being conducted and funds expended in compliance with applicable laws;
- (5) Revenues are being properly collected, deposited and accounted for;
- (6) Resources, including funds, property and personnel, are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;
- (7) Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities;
- (8) During the course of audit work, there are indications of fraud, abuse or illegal acts; and
- (9) There are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management.

(b) Audits shall be conducted in accordance with generally accepted government auditing standards applicable to financial and performance audits.

(c) The city auditor shall not conduct or supervise an audit of an activity for which he/she was responsible or within which he/she was employed during the preceding two (2) years.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-120. Annual audit plan.

(a) At least annually, the city auditor shall submit an audit plan to the audit committee for review and recommendation, and the city council for review and approval. The plan shall include the departments, offices, boards, activities and agencies scheduled for audit during the year. This plan may be amended during the year after review by the audit committee. Additionally, the city auditor may spontaneously initiate and conduct any other audit deemed necessary or as directed by the city council.

(b) In the selection of audit areas, the determination of audit scope and the timing of audit work, the city auditor should consult with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be properly coordinated. The city auditor should consult with the city manager and other charter officers in a similar fashion to enhance audit coverage and improve audit coordination.

(Ord. No. 2236, § 1, 5-1-89; Ord. No. 2304, § 2, 7-2-90; Ord. No. 2480, § 2, 9-14-92)

Sec. 2-121. Special audits.

(a) The city manager may request the city auditor to perform special audits that are not included in the annual audit plan. After consultation with the audit committee, a special audit requested by the city manager may become an amendment to the annual audit plan.

(b) The city auditor shall submit the report of the special audit to the city manager and the audit committee.

(Ord. No. 2236, § 1, 5-1-89; Ord. No. 2304, § 3, 7-2-90; Ord. No. 2480, § 3, 9-14-92)

Sec. 2-122. Funding.

Sufficient funds shall be provided to carry out the responsibilities specified herein. The city auditor's salary shall be set by the city council and reviewed annually. The audit committee shall make recommendations to the city council concerning the city auditor's annual review.

(Ord. No. 2236, § 1, 5-1-89; Ord. No. 2304, § 4, 7-2-90; Ord. No. 2480, § 4, 9-14-92)

Sec. 2-123. Records.

The city auditor shall retain for at least three (3) years a complete file of each audit report and each report of other examinations, investigations, surveys and reviews made under city council authority. The file should include audit work papers and other supportive material directly pertaining to the audit report.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-124. Access to records and property.

All officers and employees of the city shall provide the city auditor with free and open access to and shall furnish the city auditor with requested information and records within their custody regarding powers, duties, activities, organization, property, financial transactions and methods of business required to conduct an audit or otherwise perform audit duties. In addition,

they shall provide free and open access for the city auditor to inspect all property, equipment and facilities within their custody.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-125. Agency response.

A final draft of the audit report will be forwarded to the audited agency and the affected charter officer for review and comment regarding factual content before it is released. The agency must respond in writing specifying agreement with audit findings and recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to identified problems and a time table to complete such activities. The response must be forwarded to the city auditor within thirty (30) calendar days. The city auditor will include the full text of the agency's response in the report.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-126. Audit reports to city council.

- (a) Each audit will result in a written report.
- (b) The city auditor shall submit each audit report to the city council and shall retain a copy in his/her office as a permanent record. A copy shall be filed with the city clerk and the city public library. A copy of each report shall be transmitted to the city manager.
- (c) If appropriate, the audit report shall contain the professional opinion of the city auditor or the contract auditor concerning the financial statements issued by the department, board or agency; or if the audit is an expanded scope audit, the report will contain the professional conclusions of the audit regarding the management activities audited.
- (d) The city auditor shall include in the audit reports:
 - (1) A precise statement of the scope encompassed by the audit;
 - (2) A statement that the audit was performed in accordance with generally accepted government auditing standards;
 - (3) A statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the findings associated with that examination is included;
 - (4) A statement of the significant audit findings, including a statement of the underlying cause, evaluative criteria used and the current and prospective significance of the findings;
 - (5) A statement that internal control systems were examined where applicable and a report of any material weaknesses found in the internal control systems;
 - (6) Statements of response submitted by the audited department, board or agency relevant to the audit findings;
 - (7) A concise statement of the corrective actions previously taken or contemplated as a result of the audit findings and a time table for their accomplishment;
 - (8) Recommendations for additional necessary or desirable action.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-127. Report of irregularities.

If the city auditor detects apparent violations of law or apparent instances of misfeasance or nonfeasance by an officer or employee or information that indicates derelictions may be reasonably anticipated, the city auditor shall report the irregularities in writing to the city council or, in the case of a special audit, to the city manager and to the city council. If the irregularity is criminal in nature, the city auditor shall immediately notify the appropriate chief prosecuting authority in addition to those previously cited.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-128. Contract auditors, consultants and experts.

Upon approval of the city council during the budgetary process, the city auditor may obtain the services of certified or registered public accountants, qualified management consultants, or other similar experts necessary to assist the city auditor in the performance of his/her duties.

An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the city or its officers. The city auditor will coordinate his/her efforts with accounting or other organizations employed under contract by the city and he/she will assist with audit related activities. Contracting for these audits will be awarded in accordance with established city contracting procedures.

(Ord. No. 2236, § 1, 5-1-89)

Sec. 2-129. Peer review.

The internal audit activities of the city auditor's office shall be subject to peer review at least once every four (4) years by a professional, nonpartisan objective group utilizing guidelines endorsed by the National Intergovernmental Audit Forum, the State Auditor's Association, National Association of Local Government Auditors, or the U.S. General Accounting Office. A copy of the written report of this independent review shall be furnished to each member of the city council.

The peer review will use generally accepted government auditing standards to evaluate the quality of audit effort and reporting. Specific peer review areas shall include staff qualifications, adequacy of planning and supervision, sufficiency of workpaper preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, and presentation of internal audit reports. The city shall reimburse travel and living expenses for the peer review team from funds budgeted in the city auditor's budget.

(Ord. No. 2236, § 1, 5-1-89; Ord. No. 2325, § 1, 12-3-90)

Sec. 2-130. Reserved.

December 8, 2004

To: Cheryl Barcala, Internal Auditor
From: Helen Gandara-Zavala, ASB Director
Subject: Update on Property & Evidence Action Plan

Cheryl, attached is our action plan sorted by date and updated to reflect the current status on the items that have already been completed. As you will notice all items for November and December have been completed. In our commitment to complete the action plan we also presented the action plan and audit findings today to command staff at our weekly meeting. Steve Garrett and I are scheduled to meet with Property and Evidence staff early next week to discuss the findings and recommendations and the action plan timelines.

I will continue to provide you with additional information as we move forward with the remainder of the action plan.

Property Unit Action Plan

Audit Number	Action Plan	Responsible Party	Due Date	Completion Date
26	Include in the review and update of the Operation Orders, the requirement to open impound packaging to view and reconcile all items to their related invoices. Require immediately, prior to sending forfeited and unclaimed property to the warehouse, property room staff to open impound packaging to view and reconcile all items to their related invoices. Discrepancies should be documented and forwarded to appropriate staff for resolution.	Ken Racine	Nov-04	11/21/04
29	Property unit staff will provide a "certificate of ownership" on delivery to a finder of any property unclaimed by the owner.	Ken Racine	Nov-04	11/17/04
4	During the FY2004/05 budget preparation the unit supervisor will present for evaluation and consideration to the appropriate command levels, educational and training opportunities that will be of benefit to the staff of the Property Unit in improving and adding to their abilities to manage their job functions.	Steve Garrett	Nov-04	11/22/04
27	The property unit will no longer send un-redacted copies of property invoices to the warehouse. Instead a list will be generated that contains the DR, the property item number and a description of the item to be released. This list will be presented to the warehouse for their review at the time the property is released.	Steve Garrett	Nov-04	11/17/04
21	Management will place the requirement into the Operation Orders that all employees must first report to the main property location to start or end their shift and that after hour access to property locations is strictly prohibited. Keys will be left at work and accounted for daily.	Ken Racine (Memo to be issued)	Dec-04	11/21/04
28	The property unit staff will comply with current ordinance and prepare (and retain) a list of the forfeited and unclaimed property that is to be transferred to the warehouse. A computer-generated list will be developed to assist in this process. This list will contain the DR, the property item number and a description of the item to be released to the warehouse. This list will be presented to the warehouse for their review at the time the property is released.	Ken Racine Joan Scott	Dec-04	11/17/04
3	Police Department will submit to Human Resources for review and approval, updated property staff job descriptions.	Ken Racine Steve Garrett	Dec-04	11/21/04
6	A meeting will be held with the Property and Evidence Unit to clarify the Department's expectations for staff to adhere to Department General Orders and Unit Operational Orders.	Helen Gandara-Zavala	Jan-05	Scheduled for 12/14/04

Property Unit Action Plan

Audit Number	Action Plan	Responsible Party	Due Date	Completion Date
18	Develop a form that can be used when accepting items for "destruction" that documents name and address of the individual submitting the item and requires certification of ownership. The form should contain a place in which the individual can confirm that the city can place the item into service, donate or use the item for other purposes, or decline the use of the item in such a manner. Submit to the Forms Committee for approval. Maintain the forms at the Station Office at each District.	Ken Racine	Jan-05	
19	An internal form will be developed for property impound reviews and given to the officer at each review. Require the officer to give detailed reason for retaining the property be documented at each review.	Ken Racine Joan Scott	Jan-05	
8	The department will initiate the process of implementing a property/ evidence computerized bar-coding inventory system to track all impounded items.	Paul Hruby	Jan-05	
12	Management will initiate the process of implementing a property/evidence computerized bar-coding inventory system to track all impounded items while in the custody of the police department.	Paul Hruby	Jan-05	
25	Comply with city ordinance concerning forfeited weapons and other property. Meet with the purchasing director to develop procedures and policies concerning how forfeited weapons and other property will be transferred to the purchasing division from the police department and include these policies and procedure in the Property and Evidence Operation Orders.	Steve Garrett	Jan-05	
9	The Unit will implement a bar-coding system that will uniquely identify each property invoice that comes into the property room.	Ken Racine	Feb-05	
15	To help provide an auditable trail of the disposition of impounded items, the property invoice form will be reviewed and a new design developed that provides sufficient space to print the name and address of the individual to whom property is released as well as other draft changes required to meet the needs of the next generation RMS, the new bar-code system and to simplify the form's use. Present these changes to the Forms Committee for approval.	Ken Racine Joan Scott	Feb-05	
10	To insure that the proper controls and guidelines are in place and being followed for the handling and disposal of impounded property, a Property/Evidence Quality Assurance Manual will be approved and implemented. This manual will also address the issue of a control sheet being used in the submission of invoices for data entry.	Ken Racine	Mar-05	
11	To insure that the proper controls and guidelines are in place and being followed, a Property/Evidence Quality Assurance Manual will be approved and implemented. This manual will also address the issue of reconciling data entry.	Ken Racine	Mar-05	

AUDIT COMMITTEE

- **Reports are to long and go into far too much detail.**
- **Materiality should be the focus.**
- **Process needs to be shortened.**
- **Scope needs to be clearly defined and not expanded without Audit Committee approval.**
- **Minor & trivial issues should be dealt with in discussions and followed up informally at an agreed upon later date or during the next audit.**
- **Delays in reporting should not occur because of immaterial findings.**
- **The tone of reports should be more of trying to be helpful rather than creating conflict.**
- **Avoid explosive wording and terminology.**
- **Avoid becoming an authority on managing the service being audited.**
- **Recognize that not all issues can be resolved to audit satisfaction. Management has a choice.**
- **Be careful with opinions versus facts.**
- **Be extremely careful when dealing in area that you are not an expert.**
- **Don't focus on potential as much as reporting what has happened.**
- **Positive findings and improvements should receive recognition.**

- **Benefits and controls need to be weighted.**
- **Audit Reports should be drafted by the auditor responsible for the audit and reviewed by the Audit Manager for reasonable presentation not rewrites.**
- **An audit review should be conducted with the Department Head & City Manager before issuing the report.**
- **The Audit Committee should review reports before being made available to the public.**

Wayne Ecton

Reporting Standards for Performance Audits

Introduction

8.01 This chapter prescribes reporting standards and provides guidance to auditors reporting on performance audits in accordance with generally accepted government auditing standards (GAGAS). The reporting standards for performance audits relate to the form of the report, the report contents, report quality, and report issuance and distribution.

Form

8.02 The reporting standard related to the form of the report for performance audits performed in accordance with GAGAS is:

Auditors should prepare audit reports communicating the results of each audit.

8.03 The form of the audit report should be appropriate for its intended use, but should be written or in some other retrievable form. Auditors should use their professional judgment including consideration of users' needs, likely demand, and distribution in determining the form of the audit report. In addition to a more formal presentation of audit results, such as a chapter report or a letter report, briefing slides may be considered audit reports. Audit reports also may be presented on electronic media that are retrievable by report users and the audit organization, such as video or compact disc formats. However, regardless of form, audit reports should comply with all applicable reporting standards.

8.04 This standard is not intended to limit or prevent discussion of findings, judgments, conclusions, and recommendations with persons who have responsibilities involving the area being audited. On the contrary, such discussions are encouraged.

8.05 Audit reports (1) communicate the results of audits to officials at various levels of government, (2) make the

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results less susceptible to misunderstanding, (3) make the results available for public inspection, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government programs demands that audit reports be retrievable.

8.06 If an audit is terminated before it is completed but the auditors do not issue an audit report, auditors should follow the requirements in paragraph 7.40.

Report Contents

8.07 The reporting standard related to the contents of the report for performance audits conducted in accordance with GAGAS is:

The audit report should include the objectives, scope, and methodology; the audit results, including findings, conclusions, and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; the views of responsible officials; and, if applicable, the nature of any privileged and confidential information omitted.

Objectives, Scope,
and Methodology

8.08 Auditors should include in the report the audit objectives and the scope and methodology used for achieving the audit objectives. This information is needed by report users to understand the purpose of the audit and the nature of the audit work performed, to provide perspective as to what is reported, and to understand any significant limitations in audit objectives, scope, or methodology.

8.09 Audit objectives should be communicated in the audit report in a clear, specific, and neutral manner that avoids unstated assumptions. Auditors should explain why the audit organization undertook the assignment

and state what the report is to accomplish and why the subject matter is important. Articulating what the report is to accomplish normally involves identifying the audit subject and the aspect of performance examined. The reported audit objectives provide more meaningful information to report users if they are measurable and feasible and avoid being presented in a broad or general manner. To reduce misunderstanding in cases where the objectives are particularly limited and broader objectives can be inferred, it may be necessary to state objectives that were not pursued.

8.10 In reporting the scope of the audit, auditors should describe the depth and coverage of work conducted to accomplish the audit's objectives. Auditors should, as applicable, explain the relationship between the population of items sampled and what was audited; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any problems with the evidence. Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments, including demands of access to certain records or individuals.

8.11 To report the methodology used, auditors should clearly explain how the audit objectives were accomplished, including the evidence gathering and analysis techniques used, in sufficient detail to allow knowledgeable users of their reports to understand the work. This explanation should identify any significant assumptions made in conducting the audit; describe any comparative techniques applied; describe the criteria used; and, when sampling significantly supports auditors' findings, describe the sample design and state why it was chosen, including whether the results can be projected to the intended population.

8.12 Auditors should attempt to avoid misunderstanding by the report user concerning the work that was and was not done to achieve the audit objectives, particularly when the work was limited because of constraints on time or resources. The auditors' report should clearly describe the scope of the work performed and any limitations; any applicable standards that were not followed, and the reasons therefor; and how not following the applicable standards affected or could affect the results of the work. For example, if the auditors are unable to determine the reliability of information from an agency's database, and information from this database is critical to achieving the audit objectives, the report should clearly state the limitations associated with the information and refrain from making unwarranted conclusions or recommendations. In these situations, the audit report should also include the reasons the auditors were unable to perform this work and the potential impact on the findings if the information is not reliable.⁸⁸

⁸⁸When computer-processed data are included in the report for background or informational purposes and are not significant to the auditors' findings, citing the source of the data and stating that they were not verified will satisfy the reporting standards.

Findings

8.13 Auditors should report findings by providing credible evidence that relates to the audit objectives. These findings should be supported by sufficient, competent, and relevant evidence. They also should be presented in a manner to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective. The audit report should provide selective background information to provide the context for the overall message and to help the reader understand the findings and significance of the issues discussed.⁸⁹

8.14 As discussed in chapter 7, audit findings have often been regarded as containing the elements of criteria, condition, cause, and effect. However, the elements needed for a finding depend on the audit objectives. For example, an audit objective may be limited to determining the current status or condition of implementing legislative requirements, and not the related cause or effect. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the elements of the finding.

8.15 To the extent possible, in presenting findings, auditors should develop the elements of criteria, condition, cause, and effect to assist officials of the audited entity or oversight officials of the audited entity in understanding the need for taking corrective action. In addition, if auditors are able to sufficiently develop the findings, auditors should provide recommendations

⁸⁹ Appropriate background information may include information on how programs and operations work; the significance of programs and operations (e.g., dollars, impact, purposes, and past audit work if relevant); a description of the audited entity's responsibilities; and explanation of terms, organizational structure, and the statutory basis for the program and operations.

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for corrective action. Following is guidance for reporting on elements of findings:

a. Criteria provides information so that the report user will be able to determine what is the required or desired state or what is expected from the program or operation. The criteria are easier to understand when stated fairly, explicitly, and completely and when the source of the criteria is identified in the audit report.⁹⁰

b. Condition provides evidence on what the auditors found regarding the actual situation. Reporting the scope or extent of the condition allows the report user to gain an accurate perspective.

c. Cause provides persuasive evidence on the factor or factors responsible for the difference between condition and criteria. In reporting the cause, auditors may consider whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference as opposed to other possible causes, such as poorly designed criteria or factors uncontrollable by program management. The auditors also may consider whether the identified cause could serve as a basis for the recommendations.

d. Effect provides a clear, logical link to establish the impact of the difference between what the auditors

⁹⁰Common sources for criteria include laws, regulations, policies, procedures, and best or standard practices. The *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999) and *Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) are two sources of established criteria auditors can use to support their judgments and conclusions about internal control. The related *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: Aug. 2001), based on the federal internal control standards, provides a systematic, organized, and structured approach to assessing internal control.

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found (condition) and what should be (criteria). Effect is easier to understand when it is stated clearly, concisely, and, if possible, in quantifiable terms. The significance of the reported effect can be demonstrated through credible evidence.

8.16 The audit report should also include any significant deficiencies⁹¹ in internal control, all instances of fraud and illegal acts unless they are clearly inconsequential,⁹² significant violations of provisions of contracts or grant agreements, and significant abuse.

Internal Control
Deficiencies

8.17 Auditors should include in the audit report the scope of their work on internal control and any significant deficiencies found during the audit. When auditors detect deficiencies in internal control that are not significant, they should communicate those deficiencies in a separate letter to officials of the audited entity unless the deficiencies are clearly inconsequential considering both qualitative and quantitative factors. If the auditors have communicated deficiencies in a separate letter to officials of the audited entity, they should refer to that letter in the audit report. Auditors should use professional judgment in determining whether or how to communicate deficiencies that are clearly inconsequential to officials of the audited entity. Auditors should include in their audit documentation evidence of all communications about internal control deficiencies found during the audit.

⁹¹Significant deficiencies are those matters coming to the auditor's attention that, in the auditor's judgment, affect the results of the auditors' work and the auditors' conclusions and recommendations about those results.

⁹²Whether a particular act is, in fact, illegal may have to await final determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should take care not to unintentionally imply that a final determination of illegality has been made.

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**Fraud, Illegal Acts,
Violations of
Provisions of
Contracts or Grant
Agreements, and
Abuse**

8.18 In a performance audit, auditors may identify significant deficiencies in internal control as the cause of deficient performance. In reporting this type of finding, the internal control weakness would be described as the cause.

8.19 When auditors conclude, based on evidence obtained, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should include in their audit report relevant information.⁹³ Abuse occurs when the conduct of a government program or entity falls far short of behavior that is expected to be reasonable and necessary business practices by a prudent person.

8.20 When reporting instances of fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse, auditors should place their findings in proper perspective by providing a description of the work conducted that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, the instances identified should be related to the population or the number of cases examined and be quantified in terms of dollar value, if appropriate. If the results cannot be projected, auditors should limit their conclusion to the items tested.

8.21 When auditors detect violations of provisions of contracts or grant agreements; or abuse that is not significant, they should communicate those findings in a separate letter to officials of the audited entity unless the findings are clearly inconsequential, considering both qualitative and quantitative factors. If the auditors

⁹³See paragraphs 8.22 through 8.26 for additional reporting considerations.

have communicated instances of fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse in a separate letter to officials of the audited entity, auditors should refer to that letter in the audit report. Auditors should use their professional judgment in determining whether and how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse that are clearly inconsequential. Auditors should include in their audit documentation evidence of all communications to officials of the audited entity about instances of fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse.

Direct Reporting of
Fraud, Illegal Acts,
Violations of
Provisions of
Contracts or Grant
Agreements, and
Abuse

8.22 GAGAS require auditors to report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse directly to parties outside the audited entity in certain circumstances, as discussed below.⁹⁴ These requirements are in addition to any legal requirements for direct reporting of fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. Auditors should meet these requirements even if they have resigned or been dismissed from the audit.

8.23 The audited entity may be required by law or regulation to report certain fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse to specified external parties, such as a federal inspector general or a state attorney general. If auditors have communicated such fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse to the audited entity and it fails to report them, then the

⁹⁴Internal audit organizations do not have a duty to report outside the entity unless required by law, rule, regulation, or policy. See paragraph 3.28 for reporting requirements for internal audit organizations when reporting externally.

auditors should communicate their awareness of that failure to the governing body of the audited entity. If the audited entity does not make the required report as soon as possible after the auditors' communication with the entity's governing body, then the auditors should report such fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse directly to the external party specified in the law or regulation.

8.24 Officials of the audited entity are responsible for taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that auditors report to them. When fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse involves assistance received directly or indirectly from a government agency, auditors may have a duty to report such fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse directly to that government agency if officials of the audited entity fail to take remedial steps. If auditors conclude that such failure is likely to cause them to report such findings or resign from the audit, they should communicate that conclusion to the governing body of the audited entity. Then, if the audited entity does not report the fraud, illegal act, violation of provisions of contracts or grant agreements, or abuse as soon as possible to the entity that provided the government assistance, the auditors should report the fraud, illegal act, violation of provisions of contracts or grant agreements, or abuse directly to that entity.

8.25 In these situations, auditors should obtain sufficient, competent, and relevant evidence, such as confirmation with outside parties, to corroborate assertions by officials of the audited entity that the officials have reported fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse. If the officials are unable to do so, then the auditors should report such fraud, illegal acts, violations of

provisions of contracts or grant agreements, or abuse directly as discussed above.

8.26 Laws, regulations, or other authority may require auditors to report promptly indications of certain types of fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse to law enforcement or investigatory authorities. In such circumstances, when auditors conclude that these types of fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, they should ask those authorities or legal counsel if publicly reporting certain information about the potential fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse would compromise investigative or legal proceedings. Auditors should limit the extent of their public reporting to matters that would not compromise those proceedings, such as information that is already a part of the public record.

Conclusions

8.27 Auditors should report conclusions when called for by the audit objectives and the results of the audit. Conclusions are logical inferences about the program based on the auditors' findings and should represent more than just a summary of the findings. Conclusions should be clearly stated, not implied. The strength of the auditors' conclusions depends on the persuasiveness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they set up the report's recommendations and convince the knowledgeable user of the report that action is necessary.

Recommendations

8.28 If warranted, auditors should make recommendations for actions to correct problems identified during the audit and to improve programs and operations. Auditors should make recommendations

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when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Recommendations should logically flow from the findings and conclusions and need to state clearly the actions to be taken. Recommendations to effect compliance with laws and regulations and improve internal control also should be made when significant instances of possible fraud, illegal acts, or violations of provisions of contracts or grant agreements are noted, or when abuse or deficiencies in internal control are found.

8.29 Constructive recommendations can encourage improvements in the conduct of government programs and operations. For recommendations to be most constructive, they should be directed at resolving the cause of identified problems, action oriented and specific, addressed to parties that have the authority to act, practical and, to the extent feasible, cost effective and measurable.

**Statement on
Compliance with
GAGAS**

8.30 Auditors should report that the audit was made in accordance with GAGAS. The statement of compliance with GAGAS refers to all the applicable standards that the auditors should have followed during the audit. The statement referencing compliance with GAGAS should be qualified in situations in which the auditors did not follow an applicable standard. In these situations, auditors should disclose in the scope section of the report the applicable standard that was not followed, the reasons therefor, and how not following the standard affected, or could have affected, the results of the audit. In assessing the impact of not following an applicable standard on the results of the audit, auditors may need to qualify any assurances, disclaim from providing any assurances, or withdraw from the audit.

Reporting Views of
Responsible
Officials

8.31 Auditors should report the views of responsible officials of the audited program concerning auditors' findings, conclusions, and recommendations; as well as planned corrective actions. One of the most effective ways to ensure that a report is fair, complete, and objective is to obtain advance review and comments by responsible officials of the audited entity and others, as may be appropriate. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also what the responsible officials of the audited entity think about the audit results and what corrective actions officials of the audited entity plan to take. Auditors should include in their report a copy of the officials' written comments or a summary of the comments received.

8.32 Auditors should normally request that the responsible officials submit in writing their views on reported findings, conclusions, and recommendations, as well as management's planned corrective actions. Oral comments are acceptable as well and, in some cases, may be the only or most expeditious way to obtain comments. Cases in which obtaining oral comments can be effective include when there is a time-critical requirement to meet a user's needs; the auditors have worked closely with the responsible officials throughout the conduct of the work and the parties are very familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with the draft report's findings, conclusions, and recommendations, or perceive any major controversies with regard to the issues discussed in the draft report. Auditors should prepare a summary of the officials' oral comments and provide a copy of the summary to officials of the audited entity to verify that the comments are accurately stated prior to finalizing the report.

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8.33 Comments should be fairly and objectively evaluated and recognized, as appropriate, in the final report. Comments, such as a promise or plan for corrective action, should be noted but should not be accepted as justification for dropping a finding or a related recommendation.

8.34 When the audited entity's comments oppose the report's findings, conclusions, or recommendations and are not, in the auditors' opinion, valid, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should state their reasons for disagreeing with the comments or planned corrective actions. The auditors' disagreement should be stated in a fair and objective manner. Conversely, the auditors should modify their report as necessary if they find the comments valid.

**Reporting Privileged
and Confidential
Information**

8.35 If certain pertinent information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.

8.36 Certain information may be prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate limited-official-use report containing such information and distribute the report only to persons authorized by law or regulation to receive it. Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information in the report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that could be caused by the misuse of this information. In such circumstances, auditors may issue a limited-official-use report containing such information and distribute the report only to those parties responsible for acting on the

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auditors' recommendations. The auditors should, when appropriate, consult with legal counsel regarding any requirements or other circumstances that may necessitate the omission of certain information.

8.37 Auditors' judgments that certain information should be excluded from publicly available reports should be made in a manner consistent with consideration of the broader public interest in the program or activity under review. When circumstances call for omission of certain information, auditors should consider whether this omission could distort the engagement results or conceal improper or unlawful practices. If auditors make the judgment that certain information should be excluded from a publicly available report, they should state the general nature of the information omitted and the reasons that make the omission necessary in the report.

Report Quality
Elements

8.38 The reporting standard related to report quality for performance audits performed in accordance with GAGAS is:

The report should be timely, complete, accurate, objective, convincing, clear, and as concise as the subject permits.

Timely

8.39 To be of maximum use, the audit report needs to provide relevant information in time to respond to officials of the audited entity, legislative officials, and other users' legitimate needs. Likewise, the information provided in the report needs to be current. Therefore, auditors should plan for the appropriate issuance of the report and conduct the audit with these goals in mind.

8.40 During the audit, the auditors should consider interim reporting of significant matters to appropriate

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entity officials. Such communication, which may be oral or written, is not a substitute for a final report, but it does alert officials to matters needing immediate attention and permits them to take corrective action before the final report is completed.

Complete

8.41 Being complete requires that the report contain all evidence needed to satisfy the audit objectives and promote an adequate and correct understanding of the matters reported. It also means the report states information and findings completely, including all necessary facts and explanations. Giving report users an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations.

8.42 In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that a deviation, an error, or a weakness existed. Sufficient detailed supporting data should be included to make convincing presentations.

Accurate

8.43 Accuracy requires that the evidence presented be true and that findings be correctly portrayed. The need for accuracy is based on the need to assure report users that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the reliability of an entire report and can divert attention from the substance of the report. Also, use of inaccurate evidence can damage the credibility of the issuing audit organization and reduce the effectiveness of its reports.

8.44 The report should include only information, findings, and conclusions that are supported by sufficient, competent, and relevant evidence in the audit

documentation. If data are significant to the audit findings and conclusions, but are not audited, the auditors should clearly indicate in their report the data's limitations and not make unwarranted conclusions or recommendations based on those data.

8.45 Evidence included in audit reports should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means describing accurately the audit scope and methodology and presenting findings and conclusions in a manner consistent with the scope of audit work. The report also should not have errors in logic and reasoning. One way to help ensure that the audit report meets these reporting standards is to use a quality control process such as referencing. Referencing is a process in which an experienced auditor who is independent of the audit verifies that statements of facts, figures, and dates are correctly reported, that the findings are adequately supported by the audit documentation, and that the conclusions and recommendations flow logically from the support.

Objective

8.46 Objectivity requires that the presentation of the entire report be balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner so that report users can be persuaded by the facts. The report should be fair and not misleading and should place the audit results in perspective. This means presenting the audit results impartially and fairly. In describing shortcomings in performance, auditors should put findings in context. For example, the audited entity may have faced unusual difficulties or circumstances.

8.47 The tone of reports should encourage decision makers to act on the auditors' findings and recommendations. This tone should be balanced by requiring reports to present sound and logical evidence

audit findings and recommendations, and also to others authorized to receive such reports. Unless the report is restricted by law or regulation, or contains privileged or confidential information, auditors should clarify that copies are made available for public inspection. Nongovernment auditors should clarify report distribution responsibilities with the party contracting for the audit and follow the agreements reached.

8.55 Audit reports should be distributed in a timely manner to officials interested in the results. Such officials include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations contained in the report, those in other levels of government who have provided assistance to the audited entity, and legislators. However, if the subject of the audit involves material that is classified for security purposes or is not releasable to particular parties or the public for other valid reasons, auditors should limit the report distribution. (See paragraphs 8.35 through 8.37 for additional guidance on limited report distribution.) The availability of the report for public inspection should be documented in the audit documentation.

8.56 When nongovernment auditors are engaged to perform the audit under GAGAS, they should clarify report distribution responsibilities with the engaging organization. If the nongovernment auditors are to make the distribution, the engagement agreement should indicate which officials or organizations should receive the report and any other steps being taken to ensure the availability of the report for public inspection. The availability of the report for public inspection should be documented in the audit documentation.

8.57 Internal auditors should follow their entity's own arrangements and statutory requirements for

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distribution. Usually, they report to their entity's head or deputy head, who is responsible for distribution of the report. Further distribution of reports outside the organization should be made in accordance with applicable laws, rules, regulations, or policy.

Office of the City Auditor
Audits for Consideration
Calendar 2005

1) Use of the Percent for Arts

In 1989, the City adopted Ordinance #2054 setting out a requirement for 1% of the amount budgeted for capital improvements to be appropriated to the fine arts trust fund. This audit would verify compliance with the requirement for appropriation and use of funds.

2) Sculpture in Public Places Program

In 1991, the City adopted Ordinance # 2408 setting out the creation of a Sculpture In Public Places Program. This audit would examine the creation, implementation, and results of the Sculpture In Public Places Program.

3) Audit of the City's Public Art Collection

Under Contract #970044, the Scottsdale Cultural Council has certain responsibilities for the oversight of the City's art. This audit would verify compliance with contractual requirements for the care and maintenance of the City's Public Art. As a component, an inventory of artwork would be conducted.

4) Contract with the Scottsdale Cultural Council

In 1997, the City entered into a restated agreement with the Scottsdale Cultural Council for advisory and planning related to arts and culture as well as management of art facilities owned or leased by the City. A performance audit of this contract has not been undertaken; the last previous audit was completed prior to the development of the current arrangement. This audit would not include performance as it relates to the care and custody of the City's public art collection.

5) Use of the Additional Tax Imposed on Transient Lodging

In May 2004, modifications to the City Ordinance changed the allocation of the additional tax (also known as the bed tax) imposed on transient lodging. Under current provisions, 80% of the revenue derived from this tax is to be used for hospitality development (including destination and event promotion), visitor related capital projects, and visitor research. This audit would look at the process used to segregate this revenue source and the expenditures funded with the revenue. Because the Tourism Development Commission serves as the advisory body for use of the funds, the audit would include a review of the process used to forward requests to the Commission, the review process, and the subsequent approval by the Council.

6) Collection of Fees at the Airport and Airpark

City Code sets out a requirement for payment of monthly business fees as a condition of operating an aeronautical business at the Airport. Other fees are also set out in the Minimum Operating Standards and the Rates and Fees Schedule. As well, certain leases require payment for use of the facility or land. This audit would look at the procedures in place to grant permits and collect fees.

7) Streetlight Districts

The City has 86 Streetlight Districts established in the SRP service delivery area. These districts exist only as a means to collect funds for the operation of the streetlights. The number of fixtures within a district boundary range from 1 to 166 with monthly service charges ranging from \$9 to a little over \$3,000 per month. This audit would verify the number of fixtures billed, the rate charged, and the accounting method used by Financial Services to set the assessment, track the revenue received, and the expenditures paid out.

Office of the City Auditor
Audits for Consideration
Calendar 2005

8) Streetlights

The City has two accounts with SRP for non-district streetlights. Monthly service charges for these fixtures are approximately \$20,400. The cost per fixture varies between the various streetlights based on acquisition, size, and responsibility for maintenance. This audit would verify billing rate and number of fixtures included.

9) Alarm Permit Fee and False Alarm Service Charges

Scottsdale Revised Code, Chapter 3, sets out requirements for alarm permits, service charges for false alarms, and fees associated with the failure to obtain a permit. This audit would look at compliance with the requirements to obtain an alarm permit and the process currently in place to collect false alarm service charges.

10) Sheriff Billings

This audit would look at the procedures in place at the Court to reconcile the monthly billings from the Maricopa Sheriff's Office for the housing of prisoners.

11) Collection of Commercial Refuse Fees

The City offers collection of commercial refuse. This audit would examine the establishment of fees, the tracking of City owned containers and related maintenance, and the process used to bill and collect for services rendered.

12) Use of Revenue Collected Under Sec. 24.34 of the City Code, "Solid Waste Management Reserve Fund"

A Solid Waste Management Reserve Fund was established in 1992 to "fund existing and future recycling fees, new and pilot municipal recycling efforts, compliance with applicable solid waste environmental laws and regulations, source reduction or other similar activities or programs as deemed necessary in the management and handling of solid waste." Revenue to the fund is generated by a 25 cent per month fee to all residential and commercial refuse accounts as well as each "pull" for a roll-off container. This audit would look at the use of these funds for compliance with requirements set out in Ordinance.

13) Collection of Fees for Commercial Roll-Off Services

The City's Solid Waste Division provides commercial roll-off services for construction waste or other materials generated by activity at a job or worksite. This audit would look at the fees charged, the collection of service fees, and the tracking of deposits.

14) Payroll

This audit would test rate of pay and deductions to the records maintained in Human Resources to verify that 1) pay calculations agreed with rates set at last review and 2) deductions agree with source documents used to generate the request for deduction.

15) Tracking and Disposal of Surplus City Property, not Including Real Estate

City Ordinance places the responsibility for the tracking and disposal of surplus personal property with the Purchasing Director. Departments are responsible for property in the possession of staff assigned to the work area and may declare property surplus. Once the declaration is made, however, the property comes under the purview of the Purchasing Director. To facilitate the re-use of property, the Purchasing Director is to maintain a list of surplus property available for transfer. This audit would look at the process used to track and dispose of surplus property.

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16) Process Used to Set Premiums for Workman's Compensation and Unemployment

The City maintains a "loss trust fund" for the payment of operating expenses related to the risk management program, claims administration, defense services, losses, anticipated losses, and insurance premiums. The money appropriated to this fund is to be based on several factors, two of which are workman's compensation and unemployment experience. As an internal service fund, premiums charged to the various City departments/work areas provide the funding source. This audit would look at the process used to establish premiums related to workman's compensation and unemployment.

17) Claims Administration

City Ordinance sets the responsibility for claims administration with the Risk Management Director. When reaching a decision to try a lawsuit, the decision is to be reached with the approval of the City Attorney. If the City Attorney declines to defend a damage claim, the Risk Manager has the authority to select an outside attorney. The Ordinance is silent on the process to be used if the City desires to pursue a claim. This audit would look at the controls for claims administration, the process used to initiate a lawsuit and the approval process for settling claims.

18) Classification and Pay Plan

City Ordinance requires the establishment and maintenance of a classification plan. Annually, a Classification and Pay Plan (also known as the Classification/Compensation Plan) is to be approved (by the City Council) setting forth the titles, number of positions, and salary maximums for positions. Once approved, the City Manager has authority to make amendments to the Plan any time during the year.

19) Collection of Fees Related to the Installation of Water Meters

For a fee, the City provides the water meter necessary to acquire water service. For meter sizes up to 2", the City is to install the meter and, if desired by the contractor or owner/builder, will make the tap and install the connections to the property line. This audit would test the collection of fees related to the purchase of a meter and the installation, if appropriate.

20) Collection of Non-Residential Water and Sewer Development Fees

Nonresidential water and sewer development fees are determined based on estimated water usage and sewer generation provided by the developer prior to construction. Water and sewer usage is to be monitored for three years after the date of the issuance of the certificate of occupancy and, if usage is more than 20% of the estimate, a penalty is to be assessed. This audit would examine the process in place to monitor these agreements and collect any penalties.

21) Tracking of Water and Sewer Development Fees, Credit of Interest, and Use of Funds

City Ordinance requires that Water and Sewer Development Fees be tracked separately according to the purpose of the fee and the location of the property (Zone A and Zones B through E). Funds are to be used only for capital improvements for the zone in which the funds were collected from and for the purpose set when the fee was established. Periodically, a capital improvement plan for the water and sewer system improvements is to be presented to Council and projects are to be assigned to each development fee account. This audit would look at the tracking of these fees, compliance with requirements, and appropriateness of use.

Office of the City Auditor
Audits for Consideration
Calendar 2005

22)CDBG

An audit of compliance with federal requirements for participation. While CDBG is included as part of the single audit each year, the scope of that review does not look at oversight issues.

23)Compliance with Fair Labor Standards Act

Federal regulations restrict the nature of job classifications that can be considered exempt from the requirement for payment of overtime. The regulations changed significantly in August 2004 and this audit would look at compliance from the aspect of job classification, determination of hours when paying overtime, and approval processes in place to control use of overtime.

24)Bus Cards

As part of the effort towards trip reduction, the City provides Bus Cards for employees that want to use public transportation to and from work. Each month a bill is sent for trips made using these cards. This audit would look at the procedures in place to review and approve the expenditure to ensure that the City only pays costs related to transportation of City employees to and from work.

25)Handlebar Helper Program

The City co-sponsors a program known as Handlebar Helper by providing staff resources and other assistance. This audit would look at the objectives of the program, outcomes, and cost to the City to participate. As well, controls over donations would be examined to ensure that there are sufficient safeguards to ensure that donations were actually used for program delivery.

26)Software Licensing

An audit of controls used by Information Systems to ensure that only licensed versions of software are installed on City owned computers.

27)Replacement Funding for Computers, Servers, and Network Components

The City provides funds for computers, servers, and network component replacements through the use of capital project accounts. This audit would look at the process used to establish the appropriation to the three capital project accounts and the use of the funds.

28)Telephone Charges

Audit the procedures used to establish the routine charge to departments/divisions for telephone equipment and usage and the expenditure of funds.

29)Software Licensing and Maintenance

Audit the procedures used to establish the routine charge to departments/divisions for software licensing and maintenance and the expenditure of funds.

30)Sales Tax and Business Licensing Application Project

A pre-implementation review of project planning, general requirements, project management, conversion plans, testing, and implementation plans for the new Sales Tax and Business Licensing Application.

Office of the City Auditor
Audits for Consideration
Calendar 2005

- 31) Follow up of Records Audit
- 32) Follow up of Property Room Audit
- 33) Follow up of Take Home Vehicles

Office of the City Auditor
Audit Plan
2002/2003
(In priority order)

- 1) **City Funded Insurance Plans**
City Ordinance 14-102 requires that City contributions towards group insurance plans for health, life, and long-term disability be determined by City Council. Contributions, historically, have been determined by City staff and the lump sum cost of the programs is approved by Council as part of the budget process. No prior audits of this program.
- 2) **Minimum Accounting Standards Review**
The Arizona Supreme Court requires an external review of specific elements, at least triennially, to determine level of compliance with minimum accounting standards. The last review was completed May 2000, therefore, to remain in compliance it is time to conduct another review.
- 3) **City Compliance with State Records Retention Requirements**
ARS 41-1346 requires the head of each local agency to establish and maintain an active, continuing program for the economical and efficient management of public records. An audit of the City's Record Retention Program has not been conducted in the past 10 years.
- 4) **Use of Other Jurisdiction Contracts for the Purchase of Goods and Services.**
The City's Procurement Code provides that the Director of Purchasing may enter into contracts for the procurement of materials and services pursuant to specifications, solicitations, or contracts issued by other Arizona governmental entities. Such purchases shall be made pursuant to established rules. There have been no audits of this process to ensure that procurements handled through this process adhere to the intent of the Procurement Code.
- 5) **Risk Management**
Other than through the inclusion of expenditures as part of the City's annual external audit, there has been no independent audit of the expenditures paid from the City's self-funded risk fund.
- 6) **Asset Management**
In 1996, our office initiated an audit of the controls over real property owned by the City and concluded that an audit could not be completed. Management has informed us that recommendations from the 1996 audit have been completed, and they are requesting an audit to determine the adequacy of the controls. As part of this audit, we would include a review of non-real estate assets.
- 7) **Business Meeting Expenses**
The City has an Administrative Regulation governing use of City funds for business meetings. Employees are instructed to reflect the cost of these expenditures in an expenditure account "Business Training and Conferences." No prior audits of expenditures related to business meetings have been undertaken.

- 8) Long Distance Phone Use*
Audit of controls over the use of long distance to ensure that there is adequate oversight over the expenditure of City funds.
- 9) Police Department Property Room
Audit of controls at the Police Department as they relate to the Property Room.
- 10) Organizational Ethics and Training*
Audit of the City's Ethics Program and related training.
- 11) Controls Over the Use of Overtime
City management adopted a new overtime guideline effective 6/1/2000 in response to Council's concerns over the expenditure of City funds. Our intent is to audit compliance with this policy and the performance expectations presented to Council.

Follow-up Audits

- 1) Travel Audit
- 2) Purchasing Card
- 3) General Controls Review
- 4) Vulnerability Assessment

Our intent would be to follow up on the status of recommendations.

Information Systems Audits

- 1) Help Desk Function
This audit would evaluate the help desk function to ensure that sufficient controls are in place to monitor the activities associated with providing support to the City's computers and networks.
- 2) Controls Over the Use of the Computer Replacement Fund
The City has an established replacement program with funding available to replace the City owned computers and network. This audit would look at the replacement strategy, the calculation of replacement costs, and the use of funds set aside for this purpose.

Other Projects

Generally accepted auditing standards require that audit organizations have an established process for quality assurance. One way to demonstrate this quality assurance is through an external peer review. To remain in compliance, the City needs to have an external peer review every three years. The last review was completed in 1999 and included work completed in 1996, 1997 and 1998. The upcoming peer review would include work completed in 1999, 2000, 2001, and 2002.

*These items were deleted at the October 14, 2003 Audit Committee Meeting.

CITY OF SCOTTSDALE
MONTHLY EXPENDITURE REPORT
Line Item/Center

As of Period: 5 Nov

FYE: 2005

Run Date: 12/02/2004

Account Description	---CURRENT---		---YEAR TO DATE---				FISCAL YEAR BUDGET			
	Month Expenses	Approved Budget	Expenses	\$ Variance	% Var	Adopted Budget	Budget Adjustments	Approved Budget	Unexpended Budget	
01070 CITY AUDITOR										
51100 FULL-TIME WAGES	35,890	204,660	197,844	6,816	3	532,133	0	532,133	334,289	
51101 PART-TIME WAGES	0	0	0	0		0	0	0	0	
51103 OTHER COMPENSATION	0	507	507	0		507	0	507	0	
51120 RETIREMENT	2,046	11,910	10,771	1,139	10	30,969	0	30,969	20,198	
51121 HEALTH/DENTAL	2,910	15,950	14,941	1,009	6	38,284	0	38,284	23,343	
51122 FICA	2,506	15,630	14,642	988	6	40,642	0	40,642	26,000	
51123 FRINGES - OTHER	221	3,053	2,930	123	4	5,107	0	5,107	2,177	
Total 51 Personal Services	43,573	251,710	241,635	10,075	4	647,642	0	647,642	406,007	
52130 CONSULTANTS	0	0	0	0		0	0	0	0	
52160 AUDITING AND ACCOUNTING	0	0	0	0		0	0	0	0	
52185 ADVERTISING	0	0	0	0		0	0	0	0	
52190 OTHER PROFESSIONAL SERVICES	0	75	0	75	100	180	0	180	180	
52210 POSTAGE AND SHIPPING	0	0	0	0		0	0	0	0	
52220 TELEPHONE/BASE	0	3,081	3,081	0		3,081	0	3,081	0	
52222 LONG DISTANCE	2	25	2	23	92	60	0	60	58	
52225 CELLULAR PHONES	0	0	0	0		0	0	0	0	
52230 OVERNIGHT TRAIN/BUSINESS CONF	0	0	0	0		0	0	0	0	
52245 SAME DAY TRAINING/BUSINESS CON	1,375	1,488	3,951	-2,463	-166	5,950	0	5,950	1,999	
52270 PRINTING & GRAPHICS SERVICES	0	318	137	181	57	1,275	0	1,275	1,138	
52275 PHOTOCOPY CHARGES	0	1,487	1,487	0		1,487	0	1,487	0	
52279 FILMING/MICROFILMING/RECORDS RE	11	0	232	-232		0	0	0	-232	
52330 MAINTENANCE, BUILDINGS & STRUCT	0	0	0	0		0	0	0	0	
52340 MAINTENANCE, OFF EQUIP & FURNIT	0	0	0	0		0	0	0	0	
52350 SOFTWARE MAINT & LICENSING	0	0	1,952	-1,952		1,860	0	1,860	-92	
52355 SOFTWARE MAINT & LIC (I.S. ONLY)	0	1,520	1,520	0		1,520	0	1,520	0	
52420 INSURANCE & BOND PREMIUMS	0	0	78	-78		0	0	0	-78	

CITY OF SCOTTSDALE

As of Period: 5 Nov

MONTHLY EXPENDITURE REPORT

FYE: 2005

Line Item/Center

Run Date: 12/02/2004

---CURRENT---			YEAR TO DATE				FISCAL YEAR BUDGET			
Account	Description	Month Expenses	Approved Budget	Expenses	\$ Variance	% Var	Adopted Budget	Budget Adjustments	Approved Budget	Unexpended Budget
52435	PROPERTY, LIABILITY & WORKERS' C	473	2,365	2,365	0		5,676	0	5,676	3,311
52640	FREIGHT, STORAGE & TOWING	0	0	0	0		0	0	0	0
52650	CAR ALLOWANCE/MILEAGE REIMBUF	300	1,588	1,368	220	14	3,814	0	3,814	2,446
52800	SUBSCRIPTIONS & MEMBERSHIPS	0	1,540	1,391	149	10	3,699	0	3,699	2,308
52805	CITY MEMBERSHIPS	0	0	350	-350		250	0	250	-100
52820	DAMAGE CLAIMS	0	0	0	0		0	0	0	0
52875	LICENSES & PERMITS	0	0	0	0		0	0	0	0
52901	PRIOR YEAR CARRYOVER	0	0	0	0		0	0	0	0
Total	52 Contractual Services	2,661	13,487	17,914	-4,427	-33	28,852	0	28,852	10,938
53010	AGRICULTURE & HORTICULTURE SUF	0	0	0	0		0	0	0	0
53020	OFFICE SUPPLIES	167	1,250	935	315	25	3,000	0	3,000	2,065
53025	MINOR EQUIPMENT	0	0	0	0		0	0	0	0
53030	EDUCATION & RECREATION SUPPLIES	64	299	435	-136	-46	899	0	899	464
53045	MEETING REFRESHMENTS & SUPPLIES	0	0	0	0		0	0	0	0
53055	SAFETY & INCENTIVE AWARD	0	0	0	0		0	0	0	0
53060	PHOTOGRAPHIC & DUPLICATING SUP	0	0	0	0		0	0	0	0
53090	OTHER OPERATING SUPPLIES	0	0	0	0		50	0	50	50
53095	PURCHASING CARD EXPENSE	0	0	0	0		0	0	0	0
Total	53 Commodities	231	1,549	1,370	179	12	3,949	0	3,949	2,579
54350	CITY FORCE - OTHER	0	0	0	0		0	0	0	0
54520	OFFICE EQUIPMENT & FURNITURE	0	0	708	-708		0	0	0	-708
54522	COMPUTER EQUIPMENT	0	0	0	0		0	0	0	0
Total	54 Capital Outlays	0	0	708	-708		0	0	0	-708
Total: 01070 CITY AUDITOR		46,464	266,746	261,627	5,119	2	680,443	0	680,443	418,816

City Auditor
Draft Budget
for
FY 2005-2006

Description	Justification	Budgeted Amount
52350-Audit Leverage EVAL PCKG	Licenses: Audit software program that will be upgraded to a SQL version next year. The \$7,269 will be used to purchase a server, SQL seats for this Office, the operating system, and the utility necessary to run the new version. Our contacts in IS is Cindy Sheldon and Eric Wood.	\$900
54522-Audit Leverage EVAL PCKG	Hardware: Audit software program that will be upgraded to a SQL version next year. The \$7,269 will be used to purchase a server, SQL seats for this Office, the operating system, and the utility necessary to run the new version. Our contacts in IS is Cindy Sheldon and Eric Wood.	\$6,369
	XXXXXX subtotal	\$7,269
52130-Vulnerability Assessment EVAL PCKG	Outside consultant to conduct vulnerability assessment for the City network. The last independent assessment was completed in 2001 and significant changes have occurred since that time. More changes, such as migrating to Windows XP, will occur in 2005. In light of these changes as well as the rapid advances in technology, it would be prudent have another outside assessment completed.	\$49,500
52130-Peer Review Travel and Per Diem Costs	Government Auditing Standards require an external peer review at least once every three years. The last review was conducted in June 2003 and this budget amount provides funds for the airfare/hotel/per diem costs associated with a peer review.	\$1,500
	52130 subtotal	\$51,000
52245-Professional Organization Luncheons	Luncheons sponsored by professional audit organizations provide auditors with an opportunity to network with other professionals to stay abreast of changes in the auditing profession.	\$280
52245-Continuing Education	Government Auditing Standards require auditors to maintain professional competency through continuing education. At a minimum, every auditor should receive 80 hours of continuing education every 2 years. This request provides funding for each auditor to attend one local 2 day training opportunity.	\$4,753
52279-Filming/Microfilming/Records Retention	Storage for one box and possible retrieval	\$5,033
	52245 subtotal	\$100

City Auditor
Draft Budget
for
FY 2005-2006

Description	Justification	Budgeted Amount
52350-Audit Leverage	52279 subtotal	\$100
52650-Car Allowance and mileage reimbursement	Maintenance fees for 8 software licenses.	\$1,860
	52350 subtotal	\$1,860
	Car allowance for City Auditor and projected mileage needs for 7 auditors.	\$4,100
	52650 subtotal	\$4,100
53030-Continuing Education	Self-study or group study coursework necessary to obtain balance of continuing education hours necessary to meet government auditing standards.	\$2,112
52800-AICPA-American Institute of Certified Public Accountants	Membership provides access to "Journal of Accountancy" and discounts on other materials such as the accounting and auditing guides that are necessary for audit work.	\$150
52800-AICPA-American Institute of Certified Public Accountants loose leaf subscription service for updates to Profession Standards & Accounting & Audit Guides	Maintaining a loose leaf subscription service for updates to generally accepted auditing standards and industry guides ensures that the Office has current reference materials when work must comply with AICPA Standards.	\$689
52800-ASCPA-AZ Society of Certified Public Accountants	Membership provides access to local training opportunities offered by the Arizona Society of Certified Public Accountants	\$115
52800-AZ State Board of Accountancy-Biennial	Biennial registration fee for City Auditor. State law requires payment of a registration fee to maintain current status of CPA certificate. If current status is not maintained, the Office will need to decline work that is required to be conducted by a certified public accountant.	\$300
52800-Computer Security Institute	Membership provides access to information regarding computer & network security and discounts for training.	\$224
52800-IIA-Institute of Internal Auditors	Group membership to this professional organization provides access to audit related materials and discounts on training. When membership is maintained, the four certified internal auditors in the Office can renew their professional certification (CIA) designation without additional cost.	\$555
52800-ISACA-Information Systems Audit & Control Association	Membership in this professional organization provides access to materials such as the "Information Systems Auditing Standards" and discounts on materials and training.	\$180

City Auditor
Draft Budget
for
FY 2005-2006

Description	Justification	Budgeted Amount
52800-West Group	City ordinance requires audit work to include an examination for compliance with applicable laws, policies and regulations. As such, it is often necessary to research Arizona Revised Statutes. Maintaining an annotated hard copy version of the Statutes provides insight into previous wording if a change is made.	\$2,000
	52800 subtotal	\$6,325
52805-NALGA-National Association Of Local Government Auditors	Annual membership in the Nat'l Assn. of Local Gov. Auditors is a requirement to participate in the voluntary Peer Review process. Membership also provides access to reference materials.	\$350
	52805 subtotal	\$350
53020-Office Supplies	Required to support staff with needed paper and office supplies to maintain a fully functioning office.	\$3,000
	53020 subtotal	\$3,000
53030-Educational Materials	Funding to obtain updates to technical reference materials. These reference books assist in preparation of evaluation criteria and provide guidance on completion of audit work.	\$500
	53090 subtotal	\$500
54520-Office Chair	Replace one office chair that is broken.	\$708
	54520 subtotal	\$708
	TOTAL	\$72,976